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# **Financial Outlook for Key East Asian Debtors**



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**An Intelligence Assessment**

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# **Financial Outlook for Key East Asian Debtors**

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**An Intelligence Assessment**

This paper was prepared by [ ] Office of  
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**Financial Outlook for Key  
East Asian Debtors**

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**Key Judgments**

*Information available  
as of 12 September 1986  
was used in this report.*

The East Asian LDCs, with the exception of the Philippines, have generally done a much better job than most of weathering the economic problems that beset the LDCs during the past four years. Although not yet in a crisis situation, three East Asian countries—Indonesia, Thailand, and Malaysia—may require debt relief within the next two years:

- With petroleum products accounting for about 70 percent of *Indonesia's* foreign exchange earnings, the sharp decline in world oil prices is having a serious impact on Indonesia's ability to service its \$34 billion foreign debt; moreover, we believe Jakarta will be forced to increase its external borrowings this year.
- Falling commodity prices, the appreciation of the yen against the baht, and a spiraling government budget deficit are to blame for *Thailand's* worsening ability to service its debt. The budget deficit—expected to top \$2.3 billion this year—is likely to put Bangkok out of compliance with its International Monetary Fund-supported adjustment program.
- *Malaysia's* situation is also becoming more precarious as falling prices for oil, tin, and other commodity exports, in conjunction with weaker demand for Malaysian electronic exports, have worsened Malaysia's debt outlook. Moreover, some major foreign banks are taking steps to protect themselves by reducing their level of Malaysian exposure.

In contrast, *South Korea's* debt servicing ability has improved this year as a result of the combined impact of low oil prices, low interest rates, and the low value of the won compared to the yen. However, Seoul's large debt and heavy reliance on short-term credit lines leave it vulnerable to shifts in bankers' confidence. While not overly concerned with the current level of political unrest, bankers' skittishness could increase if the political situation were to deteriorate. Should bankers respond by cutting trade credit lines, South Korea would find itself faced with immediate financial difficulties.

In the absence of an economic recovery, we believe that Indonesia, Malaysia, and Thailand will be forced to make some politically painful economic decisions. Although we believe the East Asian LDCs in the long run will adjust to their new economic realities as they have in the past, we are concerned that in the short run the degree of adjustment required could

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disrupt the present political environment. For example, worsening economic conditions are likely to increase ethnic tensions, and the impact of economic and budget strains on military expenditures could lead to breakdowns in traditional military-government relationships, particularly in Indonesia.

Faced with these mounting pressures, Washington can expect the East Asian countries to become increasingly vociferous in demanding preferential treatment on a number of issues:

- In the debt area, US bilateral relations with these countries are likely to be strained by their emerging problems. The East Asian LDCs can be expected to push for concessions that equal, if not exceed, any granted to the troubled Latin debtors.
- The East Asian countries can also be expected to intensify their lobbying efforts on trade issues with their primary emphasis on US legislation aimed at protecting agricultural products and textiles. Moreover, these countries could prove to be more resolute and less cooperative during the new round of GATT negotiations.

In a broader context, key East Asian countries may actively court Japanese financing and hint at preferential treatment for creditors that are the most forthcoming in an attempt to win additional concessions from US interests.

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## Financial Outlook for Key East Asian Debtors

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### East Asia's Debt Burden

Since the debt crisis began in 1982, attention has been focused almost exclusively on the \$395 billion debt owed by the Latin American LDCs. East Asian debtors,<sup>1</sup> who collectively owe \$146 billion, have posed less of an immediate threat to the international financial community as a result of the smaller level of total borrowings and their relative success in managing their foreign debt. The East Asian countries, unlike the Latin American LDCs, were able to build up a cushion of international reserves putting them in a better position to cope with the past few years of unfavorable economic developments.

Now, however, the economies of the East Asian countries are beginning to show signs of strain because of the depressed prices for oil and other commodities and because of the export constraints caused by protectionism in industrialized countries. Protectionism is of particular concern at present with the increase in trade tensions between the East Asian LDCs and their two largest trading partners, the United States and Japan. The trade policies of these two countries pose the greatest threat to the ability of the East Asian LDCs to continue to service their debts inasmuch as a large percentage of Asian exports are concentrated in these two markets (table 1).

Moreover, commercial bankers, battered by their troubles in Latin America, are becoming increasingly apprehensive as the ability of the East Asian LDCs to repay their debts deteriorates. As a result, the terms and conditions on traditional commercial borrowings for most of these countries have tightened. The average real interest rates on new loans have increased, while the average grace and maturity periods have shortened dramatically. Although not yet in a crisis situation, the current financial positions of

<sup>1</sup> For the purpose of this paper, we have assessed the financial outlook of four East Asian countries—Indonesia, Malaysia, South Korea, and Thailand—that have significant debts with commercial banks. The Philippines was not addressed in depth because its financial troubles have been well documented.

Indonesia, Malaysia, and possibly Thailand indicate that they may need debt relief within the next two years. In the past year, only South Korea's debt servicing outlook has improved (table 2).

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### Indonesia: Economic Tailspin

The sharp decline in world oil prices is having a serious impact on Indonesia's ability to service its \$34 billion foreign debt inasmuch as petroleum products account for about 70 percent of Indonesia's foreign exchange earnings. According to our estimates, Jakarta will experience export revenue losses of \$6.3 billion—a loss of more than one-third of its 1985 revenues—if oil prices average \$15 per barrel this year. While Indonesia's sizable foreign exchange reserves and undrawn credit lines provide the government with somewhat of a cushion, the volatility of oil prices and the potential for speculative pressures against the rupiah will limit its ability to draw down reserves. Despite public assurances that Indonesia refuses to go into deficit financing, we believe circumstances will force Jakarta to increase its external borrowings. According to our indicators, Indonesia's debt servicing ability has already shown a significant deterioration this year, and we believe its medium-term financial outlook is bleak (see foldout).

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The depreciation of the dollar—particularly against the Japanese yen—has also had a significant impact on Indonesia's external payments position. Eighty-five to 90 percent of Indonesia's export earnings are dollar denominated, but almost 55 percent of its imports are from Japan. Currency realignment, along with weakening demand for Indonesia's exports, is expected to reduce Indonesia's import capacity by \$700 million this year, according to World Bank estimates. Moreover, the realignment of world currencies will raise Jakarta's debt service obligations by \$800 million as 60 percent of Indonesia's debt is nondollar denominated.

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**Table 1**  
**Asian Exports to the United States and**  
**Japan as a Percentage of Total Exports**

Percent

	1980			1985		
	United States	Japan	Total	United States	Japan	Total
China	6	22	28	11	29	40
Hong Kong	26	5	31	31	4	35
Indonesia	20	49	69	27	59	86
Malaysia	16	23	39	16	31	47
Philippines	27	27	54	36	19	55
Singapore	13	8	21	21	9	31
South Korea	26	17	43	35	15	50
Taiwan	39	NA	NA	48	11	59
Thailand	13	15	28	28	19	47

Source: IMF Direction of Trade Statistics.

As a result, Indonesia's borrowing needs will jump to almost \$5 billion a year for the next three years—up from about \$2 billion in both 1984 and 1985, according to the World Bank. Jakarta's official creditors, however, will provide little of the needed increase—they have pledged \$2.5 billion in new development assistance for this fiscal year, an increase of only \$100 million over 1985.

In terms of domestic spending, the Soeharto administration is preparing for a period of increased economic austerity. government officials are concerned over the potential for rising social unrest, political instability, and unemployment—already estimated at 35 percent—if the prices of oil, natural gas, and commodities languish at present levels or fall further. The budget for fiscal year 1987 that was presented in January, prior to the precipitous fall in oil prices, already called for government spending cuts of 11 percent based on estimates of selling 1.2 million barrels per day (b/d) at \$25 per barrel. Even if Indonesia were able to boost production to its goal of 1.6 million b/d, at \$15 per barrel a substantial revenue shortfall would still occur. Although the current five-year plan calls for a 5-percent

annual growth rate, most officials and businessmen feel the country will be lucky to achieve the 2.2-percent growth needed to keep pace with the annual population increase.

These trends leave Jakarta with a financing gap of more than \$2.5 billion for its present fiscal year that ends in April 1987. While Jakarta has enjoyed excellent access to capital markets, some bankers are concerned about Indonesia's growing debt service obligations—almost \$6 billion in 1986. Indonesia successfully raised funds in the international financial markets in February, but European and US banks—which reportedly participated on the basis of their belief that oil prices would bottom out at \$19 per barrel—are becoming increasingly nervous. Given the further deterioration in oil prices, Jakarta is likely to find many bankers unwilling to take on additional Indonesian exposure at this time. Although Indonesia has a cushion of about \$2 billion in undrawn credits at its disposal, the Bank of Indonesia is reluctant to draw down the funds too quickly for fear of damaging Indonesia's credit standing.

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**Table 2**  
**East Asian LDCs: Key Economic Data**

Billion US \$

	1982	1983	1984	1985
<b>Indonesia</b>				
Current account balance	-5.3	-6.3	-2.1	-3.0
Total debt	27.9	30.6	32.7	34.1
Total debt service	4.6	4.3	5.0	5.3
Debt owed to US banks	3.0	3.6	3.4	2.7
GDP growth (percent)	0.1	3.2	5.8	1.5
<b>Malaysia</b>				
Current account balance	-3.6	-3.5	-1.6	-0.9
Total debt	11.4	16.5	18.0	19.3
Total debt service	1.8	2.1	2.6	2.7
Debt owed to US banks	1.4	1.8	1.7	1.1
GDP growth (percent)	5.6	6.3	7.6	2.8
<b>South Korea</b>				
Current account balance	-2.7	-1.6	-1.4	-0.9
Total debt	38.9	42.8	45.4	50.2
Total debt service	6.3	6.2	7.0	7.6
Debt owed to US banks	11.0	11.5	10.0	9.2
GDP growth (percent)	5.4	11.9	12.6	5.1
<b>Thailand</b>				
Current account balance	-1.0	-2.9	-2.1	-1.5
Total debt	11.3	13.1	14.4	16.6
Total debt service	1.8	2.1	2.6	2.5
Debt owed to US banks	1.8	2.1	2.2	1.9
GDP growth (percent)	4.1	5.8	6.0	4.1

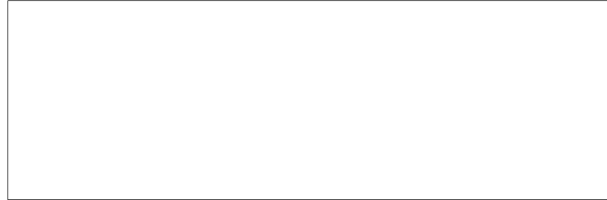
Despite these adverse developments, most observers continue to have confidence in the ability of the Indonesian technocrats to make the necessary internal adjustments. The 31-percent devaluation of the rupiah in mid-September shows the government's recognition of the need to take corrective measures. President Soeharto appears to be confident that he has adequate control over his people and the full support of the military, which would be able to quell any disturbance before it became a threat to his 20-year reign. However, in our judgment, a contracting economy coupled with rising unemployment could ignite Indonesia's potentially explosive mix of social and ethnic tensions.


#### Thailand: Potential Problems


Several factors cloud Thailand's medium- and long-term debt servicing prospects:

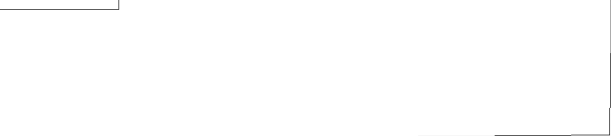
- Depressed prices for commodities have acted as a drag on Thailand's export earnings, two-fifths of which is derived from primary products.


- The domestic savings rate, already one of the lowest in East Asia, has fallen to an average of 17 percent over the past three years, down from the 20- to 22-percent average in the late 1970s.
- The appreciation of the Japanese yen has placed new pressures on Bangkok's debt servicing ability.




Of particular concern is Thailand's sizable budget deficit, which has been deteriorating since 1984 and threatens to get out of hand this year. The budget deficit—expected to top \$2.3 billion this year—is likely to put Bangkok out of compliance with its IMF-supported standby program and could jeopardize Thailand's relationship with the Fund, according to US Embassy reporting. The budget deficit is a particularly heavy burden in a country with a low level of domestic savings like Thailand. The excessive deficit results in government commands for a disproportionate share of already inadequate savings. Furthermore, the strain on the domestic credit market keeps interest rates high and forces private-sector borrowers to seek funds abroad. 


These uncertainties along with weaknesses in Thailand's financial sector are shaking the confidence of creditors and investors. The continuing difficulties of smaller domestic Thai banks, troubles with agricultural and real estate loans, poor bank management, and several cases of fraud have damaged the reputation of the Thai banking system. Increasingly, the abilities of the Thai banking supervisory authorities are being questioned as well. According to the US Embassy, these factors have soured some members of the international financial community on lending to Thailand. 



Domestically, opposition candidates in the July elections repeatedly attacked the government on Thailand's deteriorating economic situation, and the new government faces strong political pressures to increase spending. Technocrats, however, especially the new Finance Minister Suthi, continue to emphasize the need for fiscal restraint. Suthi has stated that financial stability will be his top priority and that a ceiling on foreign borrowings will be maintained. The new budget, expected to gain final approval in November, however, calls for a spending increase of 7.5 percent and is likely to lead to higher budget deficits and increased government borrowing. 

Without at least a modest improvement in the economy, however, the new government will face increasingly vocal opposition across the political spectrum. Two important issues that are likely to prove the most difficult politically are the establishment of a system to better regulate financial institutions and a more efficient system of tax collection. Also certain to add to Thailand's debt servicing burden would be a political decision by the new government to proceed with the controversial Eastern Seaboard Program—construction of two deep sea ports and a petrochemical plant. This program alone would increase Thailand's foreign borrowing requirements by an additional \$1 billion. 

#### Malaysia: Mounting Concern

As with Indonesia, Malaysia's economic difficulties are mounting, and debt relief could be necessary in the next two years. Although debt service in relation to exports remains in the "safe" range, danger signs are appearing regarding the size of total debt—now more than \$19 billion—in relation to GDP. 

Falling prices for tin, oil, and other commodity exports in conjunction with sluggish growth in the US economy, which has weakened demand for Malaysian electronic exports, are the key factors damaging Malaysia's economic and financial outlook. According to IMF estimates, Malaysia's export earnings for 1986 are expected to be 20 percent lower than last

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year. Economic growth, which had averaged an impressive 8 percent in the 1970s and had slowed only to 6 percent in 1980-84, fell by 1 percent in 1985 and could well be negative this year. To further complicate matters, the recession in neighboring Singapore has reduced employment opportunities for expatriate Malaysians, leading to a decline in repatriated earnings and an increase in Malaysia's unemployment rate. [ ]

The rapid rise in Malaysia's total debt in relation to GDP, which nearly doubled between 1981 and 1985, is clearly cause for concern. Moreover, the recent appreciation of the Japanese yen has contributed significantly to Malaysia's debt servicing costs, as more than 15 percent of Malaysia's debt is yen denominated. We expect Kuala Lumpur will actively seek to refinance its yen-denominated debts, but such attempts may not result in significant reductions in Malaysia's debt servicing burden, as its credit rating has deteriorated and any new financing would most likely carry higher interest rates. [ ]

[ ] Bankers remain skittish about their LDC exposure, and in May Prime Minister Mahathir was forced to issue a statement claiming that reports that Malaysia needed to reschedule its debt were erroneous. However, news of a rescheduling, which resulted from remarks made by Mahathir, caused considerable confusion in Malaysian foreign exchange markets. [ ]

Malaysia's credit rating has slipped further than that of its fellow oil exporter and ASEAN member—Indonesia. [ ]

Malaysia's credit rating has also suffered from the numerous financial scandals that have erupted during 1986, including large corporate failures, temporary suspensions in trading on the stock exchange, and the arrests of some of the country's leading businessmen and politicians. [ ]

Politically, the current situation in Malaysia is tenuous and is causing further doubt about how the government will resolve Malaysia's economic troubles. Mahathir confirmed in June that the National Economic Policy (NEP), which favored ethnic Malays, is being abandoned—a move that could lead to a renewal of ethnic hostilities as Malays begin to lose some of their privileges. Mahathir's personal popularity is also declining as a result of dissatisfaction with the economy and uneasiness over rumors of government corruption. [ ]

#### **South Korea: Strong But Vulnerable**

The combined impact of three recent developments—low oil prices, low interest rates, and low value of the won compared with the yen—has provided South Korea with an economic windfall. Our estimates show that, if oil prices average \$15 per barrel this year, South Korea will save almost \$2.5 billion in foreign exchange. Falling interest rates are likely to result in more than \$400 million in additional savings. In fact, South Korea is likely to turn its first current account surplus this year. [ ]

While these external economic conditions have sharply improved Seoul's debt servicing ability, the outlook remains somewhat clouded by the size of South Korea's external debt—at \$50 billion, the fourth largest in the developing world. This large debt level leaves South Korea financially exposed to a variety of economic and political shocks. For these reasons, the current favorable economic trends must be viewed with an element of caution. [ ]

We are especially concerned by the structure of South Korea's debt and, specifically, the size of short-term debt, which accounts for one-third of South Korea's total debt. Although South Korea's trade-oriented economy relies on these short-term trade credits out of necessity, they do make Seoul vulnerable to shifts in bankers' confidence. Specifically, with short-term debts of \$17 billion against foreign exchange reserves of only \$8 billion, Seoul remains highly exposed to almost any disruption in the financial markets. [ ]

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In our judgment, the disproportionate amount of debt concentrated with the 10 largest "chaebols" or conglomerates is also troublesome, as it weakens the economy's ability to withstand economic shocks. [REDACTED]

[REDACTED] Bankers fear that Seoul might eliminate the subsidies and force some of these companies into bankruptcy. Many of these companies have already been hit hard by the oil-induced recession in many Middle Eastern countries, which has forced a cutback in planned projects as well as a slowdown in new contracts. Shipping, another depressed industry, is also having an adverse affect on the chaebols' balance sheets. [REDACTED]

Seoul could also run into trouble if its heavily burdened domestic banking system breaks down. Domestic banks in South Korea are struggling under a mountain of bad debt. While exact figures are unknown, estimates of the nonperforming loans of the domestic banks range from \$4 billion to \$8 billion. The Korean banks blame their problems on government directives, which over the years forced them to extend large, low-interest loans to uncreditworthy companies. In addition, to make up for past lending practices that resulted in a disproportionate share of credit going to the chaebols, banks are now required to lend at least 35 percent of their funds to smaller businesses. The asset value of these companies is difficult to ascertain, and bankers complain that truly creditworthy companies are hard to find. As a result, the number of nonperforming loans has begun to grow. Some observers believe the amount of bad debt in the domestic market is enough to crush the banking sector. [REDACTED]

Given this situation and existing political sensitivities, foreign bankers—currently highly favored by government regulations—are concerned that adverse developments in South Korea's domestic banking sector could have a negative spillover effect on payments to foreign banks. [REDACTED]

The political situation in Seoul is also cause for concern. The incongruence of a highly successful and open economic system juxtaposed against a repressive political environment is leading to increased incidents of political unrest. While financial observers are not overly alarmed by the level of political unrest, they are concerned by the growing radicalization of student protests, including the well-publicized cases of self-immolation. Again, the dependence on short-term trade credit lines makes Seoul vulnerable to bankers' skittishness, which could increase if the political situation were to deteriorate substantially. There is no doubt that the opposition movement in South Korea was invigorated by the events in the Philippines, but similarities between the two countries are limited. [REDACTED]

#### **The Road Ahead**

We believe the East Asian LDCs will try to protect their credit ratings and their access to private capital markets to whatever extent possible. Therefore, even though Indonesia, Malaysia, and possibly Thailand may need debt relief within the next two years or so, we believe it unlikely that the East Asian LDCs would resort to taking radical unilateral debt actions. Indonesia—the prime candidate for relief—may, however, take a nontraditional approach to debt relief by trying to negotiate a rescheduling of its debts bilaterally with individual creditors such as Japan. Moreover, encouraged by the terms Mexico received in its recent debt negotiations, Indonesia could conceivably push to have its debt repayments tied to the price of oil. Indeed, if debt relief is needed, each of these East Asian countries will believe it is entitled to substantial concessions, given its past performance in fulfilling its debt obligations. [REDACTED]

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Without debt relief, the governments of the East Asian countries will have to force significant domestic adjustments, which will slow economic growth even more. Given the extent to which they have already undertaken such adjustment measures—imports have been compressed and budgets for development spending have been drastically reduced—it is questionable how much more can be done. One option is to open up their economies to more foreign investment; Thailand and Indonesia have each announced a new program of incentives in an attempt to lure such capital inflows. Such investment, however, will be slow to materialize, and the measures needed to encourage the necessary levels of investment would force the governments to relinquish a significant portion of their economic control.

With their ability to repay their debts and stimulate their economies determined largely by factors beyond their control, the East Asian LDCs will be forced to make economic choices that will be politically painful. We believe the East Asian LDCs in the long run will adjust to their new economic realities; in the short run, however, the degree of adjustment required could threaten the status quo:

- Tensions between various ethnic groups are likely to increase if economic conditions continue to deteriorate. In Indonesia, resentment is focused on the economically astute Chinese business class. In Malaysia, hostilities are concentrated on the Chinese and the Indian communities.
- Conflict is likely to increase as religious leaders take on a larger political role. The full implications of the emergence of clerics as critics of political and economic policies remain to be seen. Moreover, the religious renaissance of Islam also has the potential to cause problems for the political leadership in Indonesia and Malaysia.
- The impact of economic hardships on military expenditures could weaken the traditional military-government relationship. A military-government split would be particularly worrisome for Indonesia.

Faced with these mounting pressures, Washington can expect the East Asian LDCs to become increasingly vociferous in demanding preferential treatment on a number of issues:

- US bilateral relations with the East Asian countries are likely to be strained by their emerging debt problems. Arguing that they have been the “good debtors” while the Latin countries have been the “bad debtors,” the East Asian LDCs will push for concessions that equal, if not exceed, those granted to the Latin debtors. Moreover, cognizant of their strategic importance, the East Asian countries will believe that they can push for and receive substantial increases in US assistance.
- Knowing that the United States is anxious to preserve its leadership position in the region, the East Asian LDCs could attempt to use Japan’s emergence as a regional power to gain leverage with the United States. Key East Asian countries may actively court Japanese financing and hint at preferential treatment for primary creditors in an attempt to win additional concessions from US interests. The East Asian LDCs could point to disparate aid flows to support their case. For example, under Japan’s \$4 billion aid program, China, Indonesia, Malaysia, the Philippines, and Thailand each received more than \$100 million in 1984; and the United States, with a \$10 billion aid program, provided only one Asian country—the Philippines—with more than \$100 million in assistance.

The East Asian countries can also be expected to intensify their lobbying efforts on trade issues, with their primary emphasis on US legislation aimed at protecting agricultural products and textiles. Already, the US Farm Act has developed into a point of serious contention with agricultural producers like Thailand. In addition, some Asian textile producers find the US position on textiles—a three-year freeze at 1985 export levels—untenable, and bilateral negotiations with key countries like South Korea have failed to resolve these differences. Moreover, as their economies deteriorate, these countries could prove to be more resolute and less cooperative during the new round of GATT negotiations.

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***The Philippines: Starting Over***

*The Philippines represents a dramatic example of the linkage between economic failure and political instability. Following the February change of government, the international financial community is now cautiously watching the new government as it attempts to lead the Philippines out of its current economic crisis. Originally alarmed by talk of a selective Philippine repudiation of its \$27 billion debt or limited debt repayments, most lenders have been reassured by the administration's position that the Philippines will honor its debt obligations. Creditors seem generally pleased with the economic team selected by President Aquino. We believe the appointment of Finance Minister Ongpin and the retention of Central Bank Governor Fernandez provide Manila with a strong economic team.*

*Doubts about the political longevity of the Aquino government and ongoing labor unrest will continue to inhibit new financial inflows. Until these uncertainties diminish, the government will have to devise and implement a stopgap plan of action that will foster some improvement in Philippine economic performance. Executing a new economic plan without considerable new external financing will be difficult because of the discordant voices of those President Aquino has appointed to her Cabinet. We expect the free market supporters, led by Finance Minister Ongpin, to push for privatization and to endorse trade-oriented legislation. The populists in the*

*Cabinet, however, are likely to resist any measures that will lead to increased unemployment, and they are wary of increased international competition. One issue we believe could prove to be particularly divisive will be the approach the government takes in maintaining control over an increasingly militant labor force. Unions have become more vocal in their demands for higher wages, and labor problems have already led several firms to abandon investment plans.*

*Manila will have to send several positive economic and political signals to creditors and investors to restore confidence in the Philippines. First, the Aquino administration must show that it is committed to effective economic reform that would eliminate structural inefficiencies in the economy. Second, it must make progress in bringing the insurgency under control. Finally, the Aquino government must break with the past and dismantle the widespread spoils system that existed during the Marcos era. Popular support for the overthrow of the Marcos regime provides a unique opportunity for economic reform in that it can be packaged for domestic consumption as a repudiation of the disliked former regime. However, any sign that the system is being perpetuated and that Marcos's cronies are simply being replaced by Aquino loyalists would convince investors that needed fundamental changes are unlikely to occur.*

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Assessing a Country's Debt Burden

There is no precise way to measure how much debt a country can safely carry. Ultimately, the breaking point comes when creditors as a group perceive that the load is too heavy and begin to pull back their credit lines. Creditors' perceptions are not based exclusively on arithmetic ratios. Political and psychological considerations also play a role, but creditors do look at the numbers. When used as a benchmark and viewed against past performance, these ratios can give an indication of changes in a country's ability to service its debt:

- **Total debt in relation to gross national product.** A country with a ratio above 40 percent is struggling; 50 percent and above sounds alarms.
- **Total debt in relation to exports of goods and services.** Any figure above 200 percent raises eyebrows.
- **Short-term debt as a share of total debt.** Anything over 25 percent is undesirable; a growing share is also a danger sign.
- **Total debt service—the amount of principal and interest due to creditors—in relation to exports of goods and services is the most widely used benchmark.** A country in the 25-percent range is in the danger zone; higher than 25 percent raises red flags.
- **Foreign exchange reserves as a share of total debt.** A low level of reserves is a worrisome signal. Reserves that are more than 20 percent of total debt are reassuring.
- **Total interest in relation to exports of goods and services.** This ratio is considered critical at levels above 20 percent.

We have used these ratios to develop indicators of a country's potential difficulties in servicing its debt. By arranging the information in a continuum, it is possible to see where a particular country's weaknesses and vulnerabilities lie.

Key East Asian Debtors: Indicators of Debt Servicing Ability, 1980-86

- Indicates that the threshold was exceeded
- Indicates a ratio came within 10 percent of exceeding the threshold
- Indicates a ratio in the safe range

	Indonesia							Thailand						
	1980	81	82	83	84	85	86	1980	81	82	83	84	85	86
Total debt as a share of GNP	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total debt as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Short-term debt as a share of total debt	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total debt service as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Foreign reserves as a share of total debt	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total interest as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●

	Malaysia							South Korea						
	1980	81	82	83	84	85	86	1980	81	82	83	84	85	86
Total debt as a share of GNP	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total debt as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Short-term debt as a share of total debt	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total debt service as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Foreign reserves as a share of total debt	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Total interest as a share of exports	●	●	●	●	●	●	●	●	●	●	●	●	●	●

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